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SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-67246; File No. SR-NASDAQ-2012-071)

June 25, 2012

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing of Proposed Rule Change to Amend Rule 4758(a)(1)(A) to Reflect a Change in NASDAQ's Routing Functionality

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 14, 2012, The NASDAQ Stock Market LLC ("NASDAQ" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 4758(a)(1)(A) to reflect a change in NASDAQ's routing functionality.

The text of the proposed rule change is below. Proposed new language is in italics; proposed deletions are in brackets.

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4758. Order Routing  
(a) Order Routing Process

(1) The Order Routing Process shall be available to Participants from 7:00 a.m. until 8:00 p.m. Eastern Time, and shall route orders as described below. All routing of orders shall comply with Rule 611 of Regulation NMS under the Exchange Act.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

(A) The System provides a variety of routing options. Routing options may be combined with all available order types and times-in-force, with the exception of order types and times-in-force whose terms are inconsistent with the terms of a particular routing option. The System will consider the quotations only of accessible markets. The term “System routing table” refers to the proprietary process for determining the specific trading venues to which the System routes orders and the order in which it routes them. Nasdaq reserves the right to maintain a different System routing table for different routing options and to modify the System routing table at any time without notice. The System routing options are:

(i) DOT is a routing option for orders that the entering firm wishes to designate for participation in the NYSE or NYSE Amex opening or closing processes. DOT orders are routed directly to NYSE or NYSE Amex, as appropriate. After attempting to execute in the opening or closing process, DOT orders thereafter check the System for available shares and are converted into SCAN or STGY orders, depending on the designation of the entering firm. DOT orders that are designated to participate in the NYSE or NYSE Amex opening process but that are entered after 9:30 a.m. will also be converted into SCAN or STGY orders, depending on the designation of the entering firm.

(ii) a. DOTI is a routing option for orders that the entering firm wishes to direct to the NYSE or NYSE Amex without returning to the Nasdaq Market Center. DOTI orders check the System for available shares and then are sent to destinations on the System routing table before being sent to NYSE or NYSE Amex, as appropriate. DOTI orders do not return to the Nasdaq Market Center book after routing.

b. The entering firm may alternatively elect to have DOTI orders check the System for available shares and thereafter be directly sent to NYSE or NYSE Amex as appropriate.

(iii) STGY is a routing option under which orders check the System for available shares and simultaneously route the remaining shares[then are sent] to destinations on the System routing table. If shares remain un-executed after routing, they are posted on the book. Once on the book, should the order subsequently be locked or crossed by another accessible market center, the System shall route the order to the locking or crossing market center. SKNY is a form of STGY in which the entering firm instructs the System to bypass any market centers included in the STGY System routing table that are not posting Protected Quotations within the meaning of Regulation NMS.

(iv) SCAN is a routing option under which orders check the System for available shares and simultaneously route the remaining shares[then are sent] to destinations on the System routing table. If shares remain un-executed after routing, they are posted on the book. Once on the book, should the order

subsequently be locked or crossed by another market center, the System will not route the order to the locking or crossing market center. SKIP is a form of SCAN in which the entering firm instructs the System to bypass any market centers included in the SCAN System routing table that are not posting Protected Quotations within the meaning of Regulation NMS.

(v) TFTY is a routing option under which orders check the System for available shares only if so instructed by the entering firm and are thereafter routed to destinations on the System routing table. If shares remain un-executed after routing, they are posted to the book. Once on the book, should the order subsequently be locked or crossed by another market center, the System will not route the order to the locking or crossing market center.

(vi) MOPP is a routing option under which orders route only to Protected Quotations and only for displayed size. If shares remain unexecuted after routing, they are posted to the book. Once on the book, should the order subsequently be locked or crossed by another market center, the System will not route the order to the locking or crossing market center.

(vii) SAVE is a routing option under which orders may either (i) route to the NASDAQ OMX BX Equities Market and NASDAQ OMX PSX, check the System, and then route to other destinations on the System routing table, or (ii) may check the System first and then route to destinations on the System routing table. If shares remain un-executed after routing, they are posted to the book. Once on the book, should the order subsequently be locked or crossed by another market center, the System will not route the order to the locking or crossing market center.

(viii) SOLV is a routing option under which orders may either (i) route to the NASDAQ OMX BX Equities Market and NASDAQ OMX PSX, check the System, and then route to other destinations on the System routing table, or (ii) may check the System first and then route to destinations on the System routing table. If shares remain un-executed after routing, they are posted to the book. Once on the book, should the order subsequently be locked or crossed by another accessible market center, the System shall route the order to the locking or crossing market center.

(ix) “Directed Orders” are routed orders described in Rule 4751.

(x) LIST is a routing option under which an order, if received before the security has opened on its primary listing market, will be routed to the primary listing market for participation in that market's opening process. After the security has opened on its primary listing market, unexecuted shares will be returned to the NASDAQ system. Thereafter, the order will check the System for available shares and simultaneously route the remaining shares[before being sent] to destinations on the System routing table. Any remaining shares

will be posted on the book. In addition, LIST orders entered after the security has opened on the primary listing market (but before 3:58 p.m.) will check the System for available shares and simultaneously route the remaining shares[before being sent] to destinations on the System routing table, with remaining shares posted on the book. Once on the book, if the order is subsequently locked or crossed by another market center, the System will not route the order to the locking or crossing market center. At 3:58pm, all LIST orders will be cancelled on the System and any remaining shares will route to the security's primary listing market for participation in its closing process. LIST orders received at or after 3:58 p.m. but before 4:00 p.m. will check the System for available shares and simultaneously route the remaining shares[before being sent] to destinations on the System routing table, and remaining shares will be routed to the security's primary listing market to participate in its closing process. Shares unexecuted in the closing process will be posted to the NASDAQ book. LIST orders received after 4:00 p.m. will be posted to the NASDAQ book. If trading in the security is stopped across all markets, LIST orders will be sent to the primary listing market to participate in the re-opening process. When normal trading resumes, unexecuted shares will be cancelled off of the primary and posted on the NASDAQ book. LIST orders may not be designated as MGTC or SGTC.

(xi) CART is a routing option under which orders route to the NASDAQ OMX BX Equities Market and NASDAQ OMX PSX and then check the System. If shares remain un-executed, they are posted to the book or cancelled. Once on the book, should the order subsequently be locked or crossed by another market center, the System will not route the order to the locking or crossing market center.

Orders that do not check the System for available shares prior to routing may not be sent to a facility of an exchange that is an affiliate of Nasdaq, except for orders that are sent to the NASDAQ OMX BX Equities Market or to the NASDAQ OMX PSX facility of NASDAQ OMX PHLX.

(B) No change.

(b) - (c) No change.

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## II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at

the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

NASDAQ is proposing to amend Rule 4758(a)(1)(A) to reflect a change in NASDAQ's order routing functionality, which will allow routable orders<sup>3</sup> to simultaneously execute against NASDAQ available shares and route to other markets for execution of the remainder of the order. Currently, when a routable order is entered into the NASDAQ system, the NASDAQ book is first checked for available shares. If such an order is not filled or filled only partially, then the order is routed to away markets with the best bid or best offer pursuant to NASDAQ's System routing table.<sup>4</sup> For example, if a NASDAQ member submitted an order to buy 5,000 shares of a security, and NASDAQ had 500 shares displayed with another 500 shares undisplayed, under the current routing process 1,000 shares would be executed on NASDAQ. Thereafter, NASDAQ would route the remaining 4,000 shares of the order to other markets for execution.

NASDAQ has observed that upon partial execution of a routable order at NASDAQ, as in the example above, market participants often react to the order by cancelling their orders on other markets and entering new orders at inferior prices. This occurs because the current process directs the order to NASDAQ before attempting to

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<sup>3</sup> For purposes of this filing, a "routable order" is an order entered into the NASDAQ System, which is not of an Order Type precluded from routing to other markets.

<sup>4</sup> The "System routing table" is the proprietary process for determining the specific trading venues to which the System routes orders and the order in which it routes them. See Rule 4758(a)(1)(A).

access available liquidity at other markets and thereby allows market participants to react to the execution (an effect known as “market impact” or “information leakage”). As a consequence, the available shares at the away market are no longer available, resulting in a lower likelihood of successfully accessing liquidity on away markets (i.e., the “fill rate”) and an increased likelihood of ultimately receiving an execution at an inferior price. As such, NASDAQ is addressing this problem by changing how the routing process will operate.

NASDAQ is proposing to execute routable orders against the NASDAQ book for available shares and to simultaneously route any remaining shares to additional markets. Specifically, under the proposed change a routable order would attempt to execute against the available shares at NASDAQ and, to the extent the order would not be filled by such available shares, NASDAQ would simultaneously route the remainder of the order to other venues, according to NASDAQ’s System routing table, in a manner consistent with Regulation NMS (i.e., satisfying all displayed protected quotes). For example, using the scenario above, if a member enters a routable order to buy 5,000 shares of a security and NASDAQ is displaying 500 shares of that security, with 500 undisplayed, NASDAQ would execute against the 500 displayed shares and 500 undisplayed shares, while simultaneously routing the remaining 4,000 shares to other venues for execution. In the event that the amount of shares on other markets is insufficient to completely fill the order, or the order fails to completely execute, NASDAQ would then post the remaining shares on the NASDAQ book or cancel the remaining shares per the routed order’s instructions. NASDAQ believes that this simultaneous execution against NASDAQ available shares and routing to other venues’

shares will avoid the deleterious effect of market impact discussed above and result in overall faster and better executions of its members' routable orders.

NASDAQ notes that it is not changing the execution and routing sequence of all routable orders. The TFTY, SAVE, SOLV, and CART orders are designed to execute serially as part of their strategies, which is generally to reduce the blended fees associated with transacting on multiple markets. As such, simultaneous routing of such orders would not result in a better execution in terms of the goals of these routable order types.

## 2. Statutory Basis

The statutory basis for the proposed rule change is Section 6(b)(5) of the Securities Exchange Act of 1934 (the "Act"),<sup>5</sup> which requires the rules of an exchange to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest. The Exchange believes that the proposed rule meets these requirements in that it promotes efficiency in the market, and increases the speed of execution and likelihood that a routable order will be filled at the best price possible. In this regard, NASDAQ notes that simultaneous execution minimizes the market impact a routable order has on the markets under the current multi-step execution and routing process, thus improving fill rates. Accordingly, the proposed rule change will serve to improve execution quality for investors sending their routable orders to NASDAQ.

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<sup>5</sup> 15 U.S.C. 78f(b)(5).

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2012-071 on the subject line.

Paper Comments:



- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary,  
Securities and Exchange Commission, 100 F Street, NE, Washington, DC  
20549-1090.

All submissions should refer to File Number SR-NASDAQ-2012-071. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. The text of the proposed rule change is available on the Commission's website at <http://www.sec.gov>. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available

publicly. All submissions should refer to File Number SR-NASDAQ-2012-071, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>6</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>6</sup> 17 CFR 200.30-3(a)(12).